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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE YEAR ENDED 31 DECEMBER 1991 (*)

*Annex 1 contains follow-up action by UNHCR on the Board's recommendations for 1990 as well as the comments of the Board thereon.

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Introduction

1. As required by paragraph 22 of the statute of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1991.

2. The examination was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency (IAEA). The examination was conducted at UNHCR headquarters at Geneva and at UNHCR field offices in Indonesia, Nigeria, Sri Lanka and Uganda.

3. During the year under review, the Board of Auditors continued its normal practice of reporting the results of specific audits in the field and at headquarters, and issued management letters containing detailed audit observations to the Administration. This practice once again helped to maintain continuous dialogue with the Administration.

4. The following are considered the most significant matters arising from our 1991 audit examination. We have discussed these matters with the Administration and where appropriate, its views have been reflected in the present report.

5. The report is divided into two parts, covering the audit of financial statements and management issues, respectively.

Follow-up on actions taken on previous audit recommendations

6. Pursuant to paragraph 17 (a) of General Assembly resolution 46/183 of December 1991, the Board has reviewed measures taken to implement its prior recommendations. The Board noted that various actions were taken by the Administration to implement the recommendations made by the Board in its audit report for the year ended 31 December 1990. Detailed actions taken and the comments of the board thereon are outlined in annex I. However, the Board wishes to emphasize that actions taken towards the recovery of funds and goods not applied to the implementation of projects have so far not been successful and no policy decision has been taken on the effective control of UNHCR property in situations where there is a breakdown of law and order.

Summary of recommendations

7. The Board recommends that the following actions, presented in order of priority, be taken:

(a) In addition to measures to recover funds misappropriated in a field office, UNHCR should vigorously monitor compliance with its procurement and disbursement procedures, including adequate separation of financial responsibilities (see para. 41);

(b) To avoid over stretching UNHCR capacities, projects established to deal with emergency situations in 1991 should be effectively monitored to

confirm their continuing applicability so that timely action can be taken to terminate those whose objectives have been realized (see para. 27);

(c) UNHCR should continue its efforts to enter into tripartite sub-agreements with the government department of a host country and the implementing partners so that project funds can be released directly to the partners who are actually executing the projects in order to speed up project delivery (see para. 54);

(d) The Board reiterates its previous recommendation that the implications of a policy on the payment of reasonable reparations to UNHCR for property lost in crisis situations involving civil disorder should be re-examined (see paras. 73 and 75);

(e) Effective action should be taken to enforce strict compliance with UNHCR procurement procedures in a regional office and to improve monitoring and reporting of project activities (see para. 48);

(f) Inventory status should be regularly updated to ensure the full disclosure of inventory holdings at the end of the financial period (see para. 31);

(g) The processing of delivery reports should be expedited to ensure that financial statements reflect the true status of outstanding in-kind pledges. The reporting to donors should also be expedited to facilitate their reimbursement to UNHCR of outstanding pledges (see para. 35);

(h) Voluntary contributions should be accepted and utilized in a manner consistent with the Financial Regulations of the United Nations and where appropriate, with the Financial Rules for voluntary funds (see para. 51);

(i) The control of food items in field offices should be improved through effective storage and adequate monitoring of receipts and issues (see para. 67);

(j) The disposal of UNHCR property through donations should follow existing procedures, while inventory approved for disposal should be vigorously followed up to ensure their timely deletion from inventory (see para. 70;

(k) UNHCR's request to the Internal Audit Division (IAD) for the establishment of a UNHCR dedicated, Geneva-based IAD unit should be implemented. To the extent possible, financial resources for IAD should be increased to enable it to expand and strengthen its audit coverage, commensurate with the increase in UNHCR's activities (see para. 80).

Summary of findings

8. As a result of an unprecedented increase in refugee activities in 1991, voluntary contributions to UNHCR reached an all time level of $ 903.8 million (see para. 26).

9. The book value of non-expendable property held for administrative purposes as of 31 December 1991, was understated by $ 1.05 million due to delays in reporting of new acquisitions by some field offices (see para. 29).

10. The status of undelivered in-kind pledges in the financial statements did not reflect the true position because of delays in processing delivery reports. This also delayed the reimbursement to UNHCR of certain contributions from donors (see para. 33).

11. An amount of up to $ 689,359 was misappropriated through collusion and financial mismanagement by UNHCR staff members in a field office (see paras. 36-38).

12. Unsatisfactory procurement practices resulting in higher prices and payments for unconfirmed deliveries of supplies, as well as delayed submission of project reports, occurred in a regional office of UNHCR (see paras. 44-46).

13. Due to an administrative oversight, UNHCR accepted a contribution of $ 8.3 million which included an audit clause that appeared inconsistent with regulations on the audit of the accounts of the United Nations (see paras. 49 and 50).

14. Project execution was characterized by undue delays because project funds transferred by UNHCR under bipartite agreements through a government department were not received in good time by the implementing agencies. UNHCR's efforts to sign tripartite agreements have thus far not been successful (see paras. 52-54).

15. A large number of projects and sub-projects (2,496) scheduled for completion between 1985 and 1990 were not closed because of inordinate delays in the submission and processing of the relevant reports (see paras. 58 and 59).

16. Improper distribution of rations to refugees and to unqualified personnel led to the loss of about 22 metric tons of rice. Large quantities of food items taken from UNHCR warehouse by an implementing partner are yet to be replaced (see paras. 62 and 63).

17. Five air-conditioners were unilaterally donated by a field office to an organization without observing proper procedures. The untimely disposal of inventory items approved for disposal action persisted (see paras. 68 and 70).

18. An abnormal increase in losses of property from $ 152,536 in 1990 to $ 2.8 million was reported in 1991. Ninety per cent of these losses involving vehicles and equipment occurred in three countries as a consequence of the breakdown of law and order (see paras. 70 and 72).

19. The coverage of UNHCR programmes and related activities by the Internal Audit Division was less than adequate, particularly taking into account the level of new activities. Resource requirements and organizational arrangements are being examined to ensure better audit coverage (see paras. 78 and 79).

Part I: Financial statements
Liquidity position

20. In its resolution 46/183 the General Assembly welcomed the review of the liquidity positions of United Nations organizations by the Board of Auditors. As requested the Board conducted a further review of the liquidity position of the United Nations High Commissioner for Refugees (UNHCR) as of 31 December 1991.

21. In this review liquidity position refers to the organization's ability to settle its current liabilities using current assets, expressed in terms of increase or decrease in net current assets or an increase or decrease in net working capital. For the purpose of ascertaining the liquidity position, the term current refers to the financial period of the audited organization which is one year, in the case of UNHCR. A detailed analysis of the liquidity position is attached as annex II.

22. The current assets of UNHCR stated as $ 499.2 million exceeded its current liabilities of $ 285.9 million by $ 213.3 million as of 31 December 1991, thus showing a remarkable increase of 74.5 per cent over that of the prior year.

23. Decisions for investing UNHCR's funds were based on criteria regarding equitable distribution of available funds among eligible banks on a competitive basis. During 1991 funds were placed in 30 different banks of international repute in the Euromarket. The value of short-term investments jumped from US$ 156.7 million as of 31 December 1990 to US$ 267.6 million as of 31 December 1991 indicating an increase of US$ 110.9 million. The invested sum of US$ 267.6 million was made up of 3 call accounts amounting to US$ 38.0 million and 45 time deposit accounts totalling US$ 229.6 million. Certificates of holding were verified.

24. The appreciable level of investments of US$ 267 million recorded as of 31 December 1991 was due, in part, to the fact that UNHCR registered record cash receipts amounting to US$ 791 million as against total disbursements of US$ 669 million.

25. Despite the fact that the average rate of interest reduced from 8.22 per cent in 1990 to 6.20 per cent in 1991 the investments yielded interest income of US$ 11.8 million. The global interest income of $ 12.3 million realized was reduced to $ 11.4 million after adjustments of $ 0.9 million in respect of bank charges and exchange rate differences.

26. It was observed that the apparent lull in long standing refugee activities in 1991, caused by favourable political changes in a few regions, was completely overwhelmed by new turbulence in other parts of the world which compelled UNHCR to request the international community to contribute amounts far beyond the organization's normal requirements. As a consequence, contributions reached an unprecedented level, $ 903.8 million compared with $ 582.9 million in 1990. The following were cited as significant activities for which UNHCR appealed and received substantial contributions from the world community.

		US$ millions
(i)	Trust fund for Kampuchean returnees	18.7
(ii)	Comprehensive plan of action for Indo-Chinese refugees	60.2
(iii)	Humanitarian plan of action for the Middle East	225.2
(iv)	Emergency operation for the Horn of Africa	46.6
(v)	Repatriation of South African Refugees	25.8

27. In order not to overburden UNHCR capacities the Board recommends that the projects established in response to emergency situations should be effectively monitored and carefully reviewed to confirm their continuing relevance so that timely action can be taken to terminate those whose objectives have been realized and sustained.

Understatement of the value of non-expendable property

28. The inventory of non-expendable property maintained at UNHCR headquarters includes all items furnished by headquarters, purchased in the field, received on loan, transferred from another field office or assigned on a temporary basis to an operating partner. Non-expendable property purchased with voluntary funds the ownership of which remains vested in UNHCR, is charged as expenditure to the appropriate budget accounts in the year of acquisition. The book value of non-expendable property held for administration purposes is not included in the balance sheet but disclosed in the summary of basic accounting policies.

29. The book value of non-expendable property held as of 31 December 1991 was stated as US$ 38.7 million. However, examination of the relevant records indicated that new acquisitions of non-expendable property amounting to US$ 1.05 million purchased by 18 field offices were not inventorized as of 31 December 1991. Consequently, the inventory value is understated by that amount.

30. The Administration explained that due to an unprecedented increase in new acquisitions of non-expendable property to respond to emergency situations in 1991, UNHCR field offices could not keep pace with the recording and reporting of the field office inventory which resulted in a backlog at the end of the year. Efforts will be made to keep the inventory up to date in the future.

31. While acknowledging the rather unexpected increase in inventory acquisitions in 1991, the Board urges the need for stringent inventory monitoring as required by the General Assembly in its resolution 46/183. The Board further recommends that timely action should be taken to record and reconcile inventory status prior to the final closing to ensure full disclosure of all inventory holdings at the balance sheet date.

Unpaid pledges and in-kind contributions

32. Outstanding pledges totalling $ 164.1 million were made up of $ 124.3 million cash pledges and $ 39.8 million contributions in kind. Out of the total outstanding pledges, $ 37.9 million relates to prior years ($ 22.7 million - cash and $ 15.2 million in-kind).

33. It was observed that the figure does not reflect actual outstanding pledges because in-kind pledges which were delivered close to the end of the financial year were not processed prior to the finalization of the financial statements. Also, part of the in-kind contributions to UNHCR programmes in the Gulf in 1991 valued at $ 18.9 million was recorded as undelivered although in most cases the appropriate services have been performed and the goods delivered. As a policy, the pledge of in-kind contributions is recorded as delivered only when the field offices confirm their receipt, underscoring the need for timely reporting by field offices.

34. The Administration explained that while some major donors make timely payments of their pledges, several others make the payments of their pledges conditional upon the receipt of appropriate financial/narrative reports from UNHCR. Given the increase in contributions in 1991, not all relevant reports could be finalized in time for donors to effect the payment of their pledges before year-end. Further, in a few cases the necessary documentation was submitted to donors and UNHCR was awaiting their reimbursement.

35. The Board realizes that in view of the problems outlined above, the value of outstanding pledges stated as $ 164.1 million is not a true reflection of the actual status. The Board urges that every effort should be made to ensure timely processing at UNHCR headquarters of all changes in the status of in-kind pledges so that they will be accurately reflected in the year-end accounts. Also, the Board recommends that the reporting of the receipt of in-kind contributions should be expedited by field offices to facilitate the reimbursement by donors to UNHCR for food purchases and related costs of internal transportation, storage and handling.

Part II: Management issues

Financial management and control systems

Financial irregularities in a field office

36. Included in the cases of fraud and presumptive fraud submitted to the Board of Auditors by UNHCR in 1991 was a case of mismanagement and misappropriation of a total of $ 689,359 in a branch office. Some of the irregularities were committed by a driver of the office. The possibility exists that the representative may have known or was an accomplice to these transactions. Some cheques made out to fictitious organizations and individuals, ostensibly for the supply of goods and services were paid into the bank accounts of the driver. Also, the non-compliance with financial controls and established procedures by the representative resulted in the loss of large sums of money.

37. The irregularities are summarized below:

Payments to 3 fictitious companies for food purchases	$ 291,842
Payments to 4 fictitious companies for deficient services	$ 54,347
Unsupported/inadequately supported disbursements	$ 148,531
Loss through inflation of prices	$ 129,231
Unliquidated cash advances	$ 64,630
Private telephone bills paid with UNHCR funds	$ 778
	$ 689,359

38. Informal reports about possible financial irregularities at the branch office received by UNHCR led to an investigation in October 1991, led by a senior finance officer dispatched from headquarters. The findings of the investigation were later confirmed by the Internal Audit Division's (IAD) examination of the financial records. The Board's review of available documentation suggests:

(a) A collusion between the driver and one or more persons possibly including the representative;

(b) A serious breakdown of internal controls arising from inadequate separation of duties and lack of qualified staff;

(c) A non-adherence to established procurement and disbursement procedures; and

(d) Negligence on the part of the representative.

39. The comments of the former UNHCR representative in the branch office on the financial irregularities sent to UNHCR and copied to the Board, imply that due to inadequate professional staff resources he (the representative) had to perform both administrative and financial duties. He was therefore not able to take his annual leave - a situation considered potential for the perpetration of fraud! Further, the staff resources were overstretched when the office had to provide assistance to a large number of refugees fleeing from civil strife in two neighbouring countries. During an audit visit to a field office the Board noted that internal control was compromised by insufficient staff resources which did not permit adequate separation of functions.

40. The Board has been informed that the lack of qualified staff was exacerbated by the expulsion of three international officers at a critical stage of the emergency. The Administration stated that the resignations of the branch representative and the driver were accepted by UNHCR in October and November 1991, respectively. UNHCR is currently withholding their separation payments while waiting for the answer of the driver on the report issued by IAD. A decision on the appropriate action to be taken to recover the

misappropriated funds and, if possible the losses incurred due to mismanagement, would be taken after the above mentioned reply has been received and both answers (including the representative's) are duly analyzed. Consultations may also be undertaken with the UN Legal Section in New York with regard to the legal action that may be taken against the staff members.

41. The Board recommends that:

(a) UNHCR should determine without delay the appropriate and possible action to be taken to recover the losses incurred;

(b) Adequate measures to improve internal control in the field office should also be taken, including appropriate staff complement to allow for adequate separation of financial duties.

Programme management

42. The Board examined at UNHCR headquarters the records of projects funded from special programmes/trust funds, annual programmes and emergency funds. The selection was based on the significance of budgetary allocations, geographic distribution and the control weaknesses identified in previous reviews. Significant findings on project activities noted during audit visits to four field offices are also included.

Unsatisfactory expenditure monitoring and control

43. UNHCR procurement procedures require the prior approval of headquarters Committee on Contracts for all contracts involving commitments in respect of a single requisition or a series of related requisitions amounting to $ 70,000 or more. Contrary to procurement procedures, a regional office of UNHCR authorized the commencement of a transport contract with a proposed budget of $ 5.8 million before seeking headquarters approval.

44. The execution of the contract was not properly monitored by the regional office. Although payments were to be made on the presentation of verifiable invoices, amounts approved for payments were estimates based on originally agreed tariffs. Attempts to determine actual payments due to the contractor did not prove satisfactory because the invoices and waybills contained significant errors and omissions of necessary data. The project manager of the contractor indicated in a letter to the regional office that "proof of delivery" would be difficult to establish due to the absence of signed delivery notes or receiving and inspection reports at the warehouse where consignments were actually delivered. The Board concluded that the services provided by the contractor were not properly recorded and monitored to ensure efficient utilization of funds.

45. It was noted that the same regional office failed to provide timely monitoring and financial reports on two projects with a total budget of $ 14 million to enable headquarters to reconcile disbursements with obligations. Headquarters and the regional office were in the process of reconciling disbursements and commitments based on information received from the implementing partner.

46. On another project, the regional office purchased 400 tyres and related items for $ 82,392 from a local supplier on two occasions without headquarters

authorization and on one occasion without bidding. From relevant data at headquarters it was estimated that the items could have been obtained through international procurement at headquarters at prices that would have resulted in a saving of $ 23,412 to UNHCR.

47. The explanation of the regional office that the tyres were purchased from the local market in order to respond to emergency refugee situations would not stand scrutiny. Considering the large quantity of tyres purchased and the fact that the letter of instruction was issued since January 1991, it would have been possible to establish sufficient lead time for the tyres to have been acquired through international procurement at a lower cost.

48. The Board is concerned about the lapses in the administration of project funds by the regional office and recommends timely action to improve control and to be advised of personal responsibility for abuses that may have occurred.

Acceptance of a contribution with unfavourable clause

49. In December 1990 a major donor announced a pledge of $ 8.3 million for the United Nations Humanitarian Programme of Assistance for a country to be co-ordinated by UNHCR on behalf of the United Nations. Included in the terms and conditions under which the contribution should be disbursed was an audit clause which is considered in conflict with article XII of the Financial Rules for Voluntary Funds. Under the clause, UNHCR was required to confirm that projects funded by the contribution would be subject to an audit by the donor or the donor retains the right to conduct an independent audit of the utilization of the contribution, if necessary.

50. Although for previous pledges for the same programme this clause was waived, due to an administrative oversight on the part of the staff member who was temporarily in charge of the schedule, the receipt of the pledge was acknowledged and confirmed that the conditions and terms under which the pledge was offered were acceptable to UNHCR. The omission was noted at a much later date after which the donor's attention was drawn to the audit clause which was unacceptable on the grounds that the accounts of the United Nations and for that matter, UNHCR are audited by the Internal Audit Division and the UN Board of Auditors. UNHCR's letter requesting a redraft of the audit clause to exclude the conduct of an independent audit of the accounts of the contribution was not acknowledged by the donor. Since signed agreements are binding the donor still has the right to demand audit access to the accounts of that programme.

51. The Board recommends that UNHCR should ensure at all times that voluntary contributions are accepted and utilized only in a manner consistent with the Financial Regulations of the United Nations, the Financial Rules for voluntary funds and, where relevant, with the United Nations Staff Regulations and Rules.

Transfer of funds to non-governmental organizations

52. UNHCR entered into an implementing agreement with the government department of a host country for the implementation of a care and maintenance programme for refugees in that country. The government department concluded bipartite sub-agreements with eight non-governmental organizations (NGOs) to

execute the programme. By this arrangement, funds were released by UNHCR directly to the government department to be transferred to the NGOs for the implementation of the programme.

53. Our review revealed that amounts equivalent to US$ 1.5 million and US$ 1.8 million paid to the government department on 19 March 1991 and 3 June 1991 as first and second instalments, respectively had not been transferred to the NGOs by the end of June 1991. Consequently, some NGOs were forced to suspend non-essential services due to lack of funds. Records available at headquarters suggest that the government department as an implementing agency, is traditionally slow due, in part, to excessive bureaucracy. In one instance funds channelled through the government department in 1990 had not been received by the implementing partner (NGO) in June 1991.

54. It is clear that delays in releasing funds to implementing partners militate against timely project delivery. The Board therefore recommends that when the implementation of projects involves Governments which would sign sub-agreements with NGOs a tripartite agreement should be entered into by UNHCR with both partners so that UNHCR can release funds directly to the organizations actually involved in project implementation.

55. Although UNHCR agrees that the conclusion of tripartite sub-agreements with the government department and the NGOs would eliminate delays in the transfer of funds, the Administration is sceptical whether such an arrangement would be acceptable to the government department, given its opposition to a similar arrangement in the past. The basis for the government department's objection to the signing of tripartite sub-agreements with the NGOs was not stated and could not be easily determined.

56. In the opinion of the Board, UNHCR as the funding organization, should be able to institute measures and procedures that would improve the quality of its assistance to refugees.

Delayed closure of projects

57. Project closure procedures require the completion and submission to UNHCR of a large number of reports. Specific instructions are given in Letters of Instructions (LOIs) and implementing agreements concluded with implementing partners on the time-frame for the submission of the relevant reports, which is normally one month after the liquidation dates of projects. Obtaining these reports from the implementing partners has not been easy and requires constant and rigorous follow-up.

58. The Board observed that 1,964 projects and sub-projects implemented between 1985 and 1988 and 532 sub-projects for 1990 have not been closed because either the relevant reports have not been received or are being processed at headquarters. The Division of Programmes, Support, Budget and Finance explained that the delay in processing reports at headquarters is occasioned by shortage and rotation of staff and recently, due to expanding programme activities.

59. Between 1985 and 1991 an average of 87 per cent of UNHCR financial resources was committed to the implementation of projects each year. UNHCR therefore owes to its donors corresponding dedication to improve project

delivery through timely monitoring, reporting and evaluation of completed projects.

60. The Administration explained that a shortage of qualified administrative and project staff by the implementing partners and the emergency situations in which they execute the refugee programmes contributed to the delay in the preparation and submission of the relevant reports. UNHCR has recently once again (November 1991) issued instructions for processing the reports, establishing deadlines for their submission. A review of received reports which began after the finalization of the 31 December 1991 financial statements has identified 222 completed projects for closure. Further improvement in project reporting is expected when the production of some of the reports is automated.

61. The Board urges the Administration to exert repeated pressure on both field offices and implementing partners to prepare and submit timely reports to enhance monitoring and reporting of project activities.

Improper control of food items

62. Refugees on admission in a hospital at a refugee camp in a field office continued to receive their normal rations in addition to the rations provided at the hospital due to lack of control. Between January and September 1991 admissions made in the hospital resulted in the distribution 10.97 metric tons of rice including other items in excess of the normal requirement.

63. Further, each security personnel in the camp (50 in all) was given a daily ration of 600 grams of rice as against 400 grams for a refugee. A daily ration for the 50 security personnel would therefore feed 75 refugees. It was learnt that the allocation of 600 grams was based on the established ration for one soldier in the host country. Given the 600 grams daily ration, the allocation of rice to the security personnel alone would equal 10.95 metric tons in one year. The field office explained that the distribution of rations to the security personnel was a tradition established since 1979.

64. Food provided by UNHCR is only meant for the consumption of asylum seekers and refugees. The idea of giving bigger rations to those who normally do not qualify to receive them is also not justifiable. UNHCR may have to review this policy.

65. Additionally, the World Food Programme (WFP) supplies which are not for sale were openly displayed for sale in the market and in some shops at the camp. While rations distributed in excess of individual requirements could find their way into the market, the situation also raises doubts about the adequacy of custodial control over items in the warehouse at the refugee camp.

66. Due to laxity in the control of food items the representative of an implementing partner in another field office took large quantities of food items which included 75 bags of rice and 57 gallons of cooking oil from a warehouse in a refugee camp. UNHCR is pursuing the recovery of the value of the items from subsequent payments to be made to the implementing partner.

67. The Board recommends that the control of food items in field offices should be improved through effective storage and the proper recording of receipts and issues.

Non-expendable property

Inadequate control of non-expendable property

68. As part of its horizontal review of non-expendable property managed by United Nations organizations, the Board noted that three field offices donated five air-conditioners and three vehicles to one organization and two government departments without the prior authorization by headquarters. An organization offered temporary accommodation to UNHCR in a field office free of rental payment but on condition that all equipment to be installed in the premises would be relinquished to the organization when UNHCR vacates the accommodation. The explanation offered by the field office that the rent payable for the period UNHCR used the accommodation was higher than the cost of the air-conditioners, was unilateral and unacceptable as it could not be adequately verified. It should be emphasized to the field office that disposal of UNHCR property through donation should conform to existing procedures.

69. Forty-three accident cases (35 in 1990) involving UNHCR vehicles were reported to the Property Survey Board in 1991. As a result of the accidents a write-off of two of the vehicles valued at $ 32,798 was made. While external factors such as mechanical defects and bad roads were identified in some cases, most of the accidents were attributable to the human factor such as negligence of drivers, overspeeding and careless driving. Out of four staff members held liable for the refund of the repair costs as well as forfeiting other benefits only one has paid the appropriate reparations. In the case of one driver, it was not possible to obtain the necessary refund as his contract was terminated soon after the accident. The repair cost amounting to $ 3,000 was therefore borne by UNHCR. Appropriate reparations stated in the Property Survey Board's decision should be pursued from the other two staff members.

70. Following the Board's recommendation on the need to establish a specific time-frame to facilitate the disposal of inventory approved for write-off, the Administration instructed that items should be disposed of within four months of the Property Survey Board's approval. Our present review established that out of 113 approved disposals examined in 1991, action was taken only on seven of them. The Board wishes to emphasize that it is not enough to merely establish the time frame for the disposal of inventory, this should be vigorously followed up to ensure the realization of a reasonable cost-recovery income and to free the inventory of obsolete items.

Losses of non-expendable property in crisis situations

71. A review of losses of non-expendable property reported to the Property Survey Board revealed an abnormal increase in the value of losses for 1991. While only $ 152,536 was written off through theft or disappearance $ 2,754,519 worth of property was lost through theft or seizure mostly during civil strife. Examination of available records however disclosed that the figure includes losses amounting to $ 271,118 which occurred in a field office between 1985 and 1987 reducing the 1991 losses to $ 2,483,401.

72. About 90 per cent of the losses in 1991 occurred in three countries through seizures at gunpoint as a result of civil disorder. Seventy per cent of the property was in respect to vehicles of all types while 30 per cent involved agricultural and office equipment. Minor losses sustained in other

field offices were caused by inadequate custodial control and irregular inventory reconciliation, thus some losses remained undetected until stock-taking was conducted prior to closing down the office.

73. The difficulty of providing adequate protection for UNHCR property in violent political situations attracted the Board's comment in its 1990 report and recommended that a solution to the problem should be found. It was then suggested that the responsibility or the intervention of the host Government in cases of forcible seizure of UNHCR property should be considered and written into the standard agreement with host countries.

74. The Administration stated that under normal circumstances UNHCR personnel and property are protected by the host Government as regulated in various conventions. However, in situations where law and order breakdown and the Government loses control or even is deposed, guarantees provided under the convention may not be honoured. Also, insurance coverage does not extend to situations of war and civil disturbances.

75. Indeed, the Board recognizes that this is a difficult problem, nonetheless the search for a solution must continue. The Board would like to suggest that even in crisis situations where the Government is swept away in the storm, it may be appropriate to make the successor Government liable for the payment of reasonable reparations to ensure the continuance of UNHCR services or risk losing these services.

Internal Audit

Coverage of UNHCR activities

76. As part of its horizontal review of the internal audit function in United Nations organizations, the Board examined the adequacy or otherwise of the coverage of UNHCR programmes and related activities provided by the Geneva office of the UN Internal Audit Division (IAD) based in New York. The office of the IAD in Geneva at present has a staff strength of nine auditors. However as of 31 December 1991, there were only two UNHCR-financed audit staff and five UN-financed staff at post in Geneva. It should be noted that UNHCR currently provides financing to IAD for eight posts. It was noted that a P4 post financed by UNHCR which became vacant since December 1990 has not been encumbered, although the deadline for the submission of applications by prospective candidates expired in March 1991.

77. As audits are planned in Headquarters, New York, we did not find in Geneva a medium or long-term plan on the audit of UNHCR activities. Short-term audit plans for 1990 and 1991 as well as the provisional plan for 1992 which were available did not identify time-frames for the execution of audit assignments. Also, the dates on the audit plans for 1990 and 1992 suggest that they were not issued early enough to be used as a basis for the adequate performance of the audit function during the said periods.

78. Our review disclosed that the performance of audit assignments was generally carried out with the required professionalism leading to significant findings and recommendations. However, the reporting of findings in a formal report to UNHCR was sometimes characterized by long delays. UNHCR has expressed concern and has rightly pointed out that the delays appeared to

diminish the value of the findings and recommendations because weaknesses identified in the report may no longer exist or may have escalated to the disadvantage of the organization.

79. Due to resource limitations and the constant requests for the audit of new United Nations activities the coverage of UNHCR programmes and related activities by the Internal Audit Division was less than adequate. In this connection, the Board observed that UNHCR has opened a discussion with the Internal Audit Division on the need for the establishment of an audit unit based in Geneva within the IAD solely responsible for the coverage of UNHCR programmes and activities. According to UNHCR, such a unit would be more responsive to the specific needs of UNHCR, improve knowledge and understanding of its operations, have access to all services and documentation at UNHCR headquarters and consequently enhance the performance of the audit function.

80. Based on UNHCR's capacity to finance the necessary posts, the Board recommends that the Internal Audit Division should expand and strengthen its audit of UNHCR by establishing a truly UNHCR dedicated IAD unit in Geneva to ensure adequate and effective coverage of its programmes and related activities.

Write-off of losses of cash and property

81. In accordance with UNHCR financial rule 10.6 the Board was informed of the accounts written off during 1991. In four cases, cash amounting to $ 3,487.80 stolen at four field offices was written off for lack of evidence of personal responsibility. Non-expendable property amounting to $ 2,754,519 was written off as a result of disappearance or seizure of most of them as a consequence of civil disturbances.

Cases of fraud and presumptive fraud

82. The Administration informed the Board that, in the course of 1991 it became aware that through the manipulation of records some staff members succeeded in misappropriating $ 6,589 in one office. As a consequence of mismanagement and possibly, collusion in a branch office the embezzlement of a sum of $ 689,359 has been reported. (The nature of the latter case was discussed in paragraphs 16-41). Also, fuel coupons totalling $ 1,828 were stolen by a staff member for his private use in a field office. Through the vigilance of a bank an attempt by a staff member to negotiate cheques issued by UNHCR to contractors, which then were endorsed to the staff member was foiled. This arrangement was an attempt by contractors to evade foreign currency regulations and presumably the staff stood to gain personal benefit from exchange rate differences. The staff member resigned at the request of UNHCR.

Acknowledgement

83. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the High Commissioner, her officers and their staff.

Osei Tutu PREMPEH
Auditor-General of Ghana

Eufemio C. DOMINGO
Chairman, Commission on Audit
of the Philippines

Heinz Günter ZAVELBERG
President of the Federal Court
of Audit of Germany

Annex I

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the period ended 31 December 1990 Supplement No. 5E (A/46/5/Add 5)

Recommendation No. 7(a)

1. Provisions in the implementing agreements on the effective recovery from implementing agencies of project funds not utilized for purposes intended should be rigorously enforced, as this will compel the executing agencies to improve control of project funds.

Measures taken by Administration

2. In a letter dated 3 February 1992, UNHCR has demanded the restitution by the agency whose staff misappropriated the amount, irrespective of the results of the court case opened by the agency against the staff members involved.

3. In January 1990, UNHCR in a communication to the United Nations Controller indicated the possibility of fraud involving projects being implemented by the agency concerned. UNHCR requested an audit by the Internal Audit Division (IAD) of projects implemented by the agency in 1987 and 1988.

4. UNHCR received the above-mentioned IAD report on 27 December 1991. This report provides further information that will require the broadening of the prosecution in the court case in progress which, up to now, related only to payments made to the agency in 1989. Following the issuance of the IAD report, a Deputy Director of the Controller's Division proceeded on mission to have discussions with the agency concerned; again the responsibility of the agency for the reimbursement of the misappropriated funds was underlined, irrespective of the outcome of the court case. UNHCR has, nevertheless, expressed concern to the relevant government ministry at delays surrounding the court case. The permanent secretary of the relevant ministry has assured UNHCR that the case will be expedited.

5. In regard to a further recommendation of the Board that funds be recovered through deductions from subsequent project payments to the agency, such a course of action had to be ruled out, so as not to endanger the implementation of projects which provided vital assistance to refugees. Besides, the amount of funds subsequently made available to the agency for the two small projects that it is implementing fell short of the amount to be recovered.

6. In addition to following up the Board's recommendations, UNHCR has also sent an interim reply to the Internal Audit Division which includes a request for further clarification of certain aspects of its report that would allow UNHCR to take further action.

Comments of the Board

7. Efforts to recover the misappropriated funds are ongoing.

Recommendation No. 7(b)

8. Existing organizational arrangements and procedures for the management of cash resources in the field offices should be strengthened and personal responsibility for losses re-emphasized.

Measures taken by Administration

9. In the light of the above observation by the Board of Auditors, the Deputy High Commissioner issued in October 1991 an Inter-Office Memorandum (No. 75/91) and a Field Office Memorandum (No. 78/91) entitled "Financial, Administrative and Operational Controls". The memorandum noted, inter alia, that: Non-compliance with rules and procedures, inadequate controls or ineffectiveness in addressing areas which results in the loss or improper use of UNHCR's assets, the unacceptably poor or questionable performance of implementing partners needs to be addressed. Where the deficiencies are attributable to management, financial or administrative deficiencies or malpractices of UNHCR staff members or staff of operational partners, appropriate action has to be initiated, including the recovery of the amounts involved.

10. In the first case, the staff member was dismissed as at 31 December 1991 and the amounts misappropriated recovered through deductions from his final emoluments. In the second case, the suspected person was released from prison on bail and subsequently left the country. In order to recover the amount embezzled, negotiations continued with the bank that cashed the forged cheques.

Comments of the Board

11. The implementation of this recommendation began with the issuance of the memorandum quoted by the Administration. With regard to the forged cheques the recovery of the amount of US$ 8,375 from the bank or jointly from the driver and the representative is pending. Negotiations continue with the bank for the recovery of the amount. UNHCR has threatened legal action should the bank fail to credit its account with the amount. The Boards' present review, however, indicates that the misappropriation of funds by staff members persisted.

Recommendation No. 7(c)

12. To improve transparency, the reporting of "other trust funds" in schedule 1 (A/AC.96/796) should be expanded to disclose separately any trust fund with a favourable balance of US$ 500,000 and above at year-end.

Measures taken by Administration

13. The Administration reported that this proposal has been implemented in its accounts for the year ended 31 December 1991, which provide, in annex I, the information at the recommended level of detail.

Comments of the Board

14. This recommendation has been implemented.

Recommendation No. 7(d)

15. All funds in transit at year-end should be adequately investigated and promptly adjusted to reflect the actual balances in the related accounts.

Measures taken by Administration

16. The Administration indicated that all the 19 transactions outstanding at the end of 1990 have subsequently been cleared.

Comments of the Board

17. This recommendation has been carried out. The outstanding figure of US$ 4,297,000 indicated on the balance sheet as of 31 December 1991 represents transactions which were effected on 31 December 1991.

Recommendation No. 7(e)

18. The difficulty of providing adequate protection for UNHCR resources in the field offices in violent political situations should be carefully reviewed and appropriate remedial action taken.

Measures taken by Administration

19. The Administration stated that the difficulty of providing protection for UNHCR property in certain situations is real and quite widespread. In its work for refugees, UNHCR is sometimes obliged to work in areas where effective government is not functioning and where lawlessness prevails. Particular circumstances must determine the nature of the steps to be taken to protect UNHCR property. UNHCR is considering the feasibility of the proposal of the auditors that "perhaps Governments' responsibility or intervention in cases of plunder/looting should be considered and written into the standard agreement with host countries".

Comments of the Board

20. No policy decision has been taken in this regard. The issue has been discussed again by the Board in its present report in view of the growing losses of UNHCR property in situations of breakdown of law and order.

Recommendation No. 7(f)

21. Implementing agencies should be encouraged to ensure timely reporting of project activities to facilitate the closure of completed projects.

Measures taken by Administration

22. The Administration indicated that project closure procedures require the submission to UNHCR of the relevant reports of the implementing partner not later than one month after the completion of the project or the final date of the liquidation of obligations. In November 1991 the Division of Programmes,

Support, Budget and Finance within UNHCR commenced a review of all prior years' projects that were still awaiting the appropriate closure actions.

23. UNHCR had sent reminders to the implementing partner concerned, but without a positive outcome. Further follow-up action was taken in March, 1992 when a mission was fielded to the country concerned in an attempt to gather as much information as possible in respect of the projects in question.

24. UNHCR continues to do everything practicable to ensure that implementing partners submit timely reports on project activities.

Comments of the Board

25. UNHCR issued Memorandum No. PCBS/839/91 of 21 November 1991 to all heads of bureau to meet with all relevant implementing partners to explain the concern that UNHCR has regarding outstanding reports. The memorandum further requested the heads of bureau to remind implementing partners in writing to submit by 31 January 1992 any outstanding reports and financial obligations under the relevant sub-agreements.

26. The problem of late closure of projects persisted in 1991 and it has again been a subject for comments in the Board's present report.

Recommendation No. 7(g)

27. UNHCR should take appropriate measures to recover the confiscated goods and to improve facilities planning to ensure the availability of adequate accommodation prior to the shipment of goods.

Measures taken by Administration

28. UNHCR has reviewed the actions taken by the relevant branch office and is satisfied that all the necessary administrative steps were taken in accord with that country's customs regulations to ensure the safe keeping of the goods in question.

29. However, persistent attempts by the relevant UNHCR branch office to recover the goods have been unsuccessful. The head of the appropriate regional bureau in UNHCR has also approached the permanent representative of the country concerned, so as to intervene with the relevant authorities.

30. UNHCR has, meanwhile, rented independent storage facilities in the country concerned so as to avoid any repeat of such an incident.

Comments of the Board

31. The confiscated goods have not been recovered. It has been indicated that a policy decision by the High Commissioner would be required as to whether she would want to pursue the matter further with the host Government and seek clarification from the Office of Legal Affairs of the UN Secretariat. The Board did not have the opportunity to verify the availability to UNHCR of rented independent storage facilities in the host country as advised by the Administration.

Recommendation No. 7(h)

32. The submission of receiving reports to confirm the receipt of consignments should be facilitated to allow for timely resolution of delivery deficiencies.

Measure taken by Administration

33. The Administration reported that on 22 January 1991, a memorandum (IOM/011/91 - FOM/009/91) was sent to all UNHCR representatives and chargés de mission on the subject of "Reporting Requirements concerning Goods Shipped to Refugee Programmes". The memorandum stressed the importance of returning to headquarters Receiving Reports within 30 days of receipt of goods at the destination mentioned on the shipping/insurance advice form.

34. For the period in question (January-October 1990) the percentage of the Receiving Reports returned to Geneva stood at 96.5 per cent. The Supplies and Food Aid Section within UNHCR continues to actively monitor such returns.

Comments of the Board

35. This recommendation was implemented.

Recommendation No. 7(i)

36. UNHCR should re-emphasize to implementing partners/agencies that the utilization of donor contributions for the welfare of refugees should always override other considerations.

Measures taken by Administration

37. The recommendation was taken up in the memorandum on "Financial, Administrative and Operational Controls" issued in October 1991. The memorandum underlines, inter alia, the responsibilities of representatives and chargés de mission to assure sufficient surveillance over the implementing partners' financial and administrative practices. It states that "the issue under consideration is none other than the conscientious and responsible use of resources given to UNHCR by the international community for relieving the tragic situation of refugees".

38. Administration stated further that the relevant UNHCR field office continues to monitor the use of funds by the agency. In addition, efforts by the agency itself to improve its management style have led it to make a number of structural changes, and particularly, changes of personnel in the location concerned.

Comments of the Board

39. The memorandum "Financial Administrative and Operational Controls" issued to appropriate heads of sections and offices in headquarters and in the field in October 1991 was aimed at addressing the issues raised in the recommendation. The effectiveness of the impact of the memorandum will, however have to be assessed in future audits.

Recommendation No. 7(j)

40. Field offices should be informed of specific time-frames for disposal of approved inventory to permit its timely disposal.

Measures taken by Administration

41. Administration reported that an internal Memorandum (FOM/43/91) was sent in April 1991 to all field offices reminding them of the procedures to follow when submitting cases to the Property Survey Board (PSB). This memorandum also instructs the field offices to dispose of items within four months of the receipt of the PSB authorization.

Comments of the Board

42. Despite the issuance of the above memorandum the failure by field offices to take early action on approved disposal cases persisted in 1991. The need to curb this irregularity has been re-emphasized in the present report

Annex II

Liquidity position

1. The following details indicate the trend of current assets and current liabilities for the present and prior year.

	Thousands of US dollars		
Current Assets	**1991**	**1990**	**Increase/ (Decrease)**
Cash in hand and at banks	15,078	7,412	7,666
Cash in transit	4,297	926	3,371
Short-term investments	267,580	156,674	110,906
Accounts receivable	212,221	121,588	90,633
	499,176	286,600	212,576
Current Liabilities			
Obligations for projects	265,577	157,540	108,037
Letters of credit	280	630	(350)
Advance contributions	15,814	533	15,281
Other payables	4,203	3,906	297
	285,874	162,609	123,265
Excess of current assets over current liabilities	213,302	123,991	89,311

2. The statement below shows sources and application of funds for the year under consideration.

Sources of funds	**US$000**	**US$000**
Contributions	903,819	
Interest, bank charges, exchange difference	11,375	
Loan repayment, miscellaneous income	1,441	

Sources of funds	US$000	US$000
Cancellation of obligations	30,825	
Refunds from other agencies	8,466	
Adjustments of contributions/refund to donors	(4,062)	
Write-offs	(4)	951,860
Application of funds		
Obligations incurred for operations	796,365	
Programme support and administration	66,184	862,549
Excess of income over expenditure		89,311